



IPO Note

Innomet Advanced Materials Limited

Recommendation: **RISK**

Company Background -

- Innomet Advanced Materials Limited was originally formed and incorporated on March 07, 1984. The registered office is located at Hyderabad, Telangana, India.
- The company is engaged in the manufacturing of metal powders (Ferrous, Non-Ferrous, and Alloys) and Tungsten Heavy Alloys (THA).
- The company has two divisions such as Innomet Powders and Innotung.
- The company had 56 permanent employees as of March 31, 2024.

Objects of the Issue -

- Funding Working Capital Requirement.
- Capital Expenditure Requirements towards Purchase of Machinery and Equipment.
- Repayment or prepayment of outstanding borrowings.
- General Corporate Purposes.
- To meet the Offer Expenses.

Promoters Name -

Lakshmi Kanthamma Chilakapati, Saritha Devi Chilakapati and Vinay Choudhary Chilakapati

Rationale for recommendation -

- ✓ The top line and the bottom line of the financials looks unsustainable.
- ✓ The company's P/E Valuation is very high.
- ✓ The company operates in a niche market
- ✓ The management overview is satisfactory.
- ✓ The company has good strategies planned out for the future.

IPO Details

Opening Date	Sep 11, 2024
Closing Date	Sep 13, 2024
Allotment Date	Sep 16, 2024
Listing Date	Sep 18, 2024
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price Per Share	₹100
Issue Size	34.24 Cr.
Fresh Issue	34.24 Cr.
Offer for Sale	-
Application Amt	₹ 1,20,000 (1,200 shares)

INDUSTRY - Powder Metallurgy

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	2,238.42	2,712.93	2,899.19
EBITDA	169.63	572.63	438.60
Net Profit	55.17	321.55	251.91
RoCE	14.15%	34.21%	18.47%
ROE	14.53%	45.55%	17.11%
P/E	52.36	8.97	37.74

Promoter Share Holding Pattern

Pre-Issue	Post Issue
74.52%	54.80%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	2.65	1.95
BVPS	15.47	37.83
P/E	37.74	51.37
P/BV	6.47	2.64
Mkt Cap (In Cr)	95.17	129.40

Lead Managers -

Expert Global Consultants Private Limited

Registrar -

Skyline Financial Services Private Limited

Business Overview -

Innomet Advanced Materials Limited was initially formed as a partnership firm in the year 1984. The partnership firm started its business as a general engineering service provider and since then has diversified its product line through the manufacturing of diamond tools, and then entered the manufacturing of metal powders (Ferrous, Non-Ferrous, and Alloys) through backward integration and finally also started manufacturing of Tungsten Heavy Alloys (THA) through research and development.

The company’s operations can be divided into two divisions such as –

1. Innomet Powders
2. Innotung

Brief on each of the operations –

Innomet Powders – The company under its innomet powders segment supplies metal and alloy powders through water, air, and gas atomisation. They have around 20 products including Copper, Bronze, Brass, Nickel, Tin and Stainless-Steel Powders in this segment

Applications



Powder Metallurgy Components, Diamond Tools, Welding, Brazing, Catalysts, Surface Coatings, and others.

End-Use Industries



Automobile, Construction, Engineering, Bulk Drugs, and Electronics.



The raw materials utilized are purchased and rejected scrap, pure metals, and master alloys. The company caters to several big clients such as Tata Steel, Atul, HAL, Bharat Fordge, etc.

The company currently as of March 24, 2024, has an order book for Rs. 1.15 Cr for the metal powder and Rs. 7.39 Cr for the alloys. The potential market is valued globally at USD 1 billion and INR 4-5 billion in India.

The capacity utilized as per water, air and gas are as follows -

Water – 31.73%, 32.25%, and 33.60% for FY ended 22, 23, and 24 and the future projected capacity is 1400 TPA (Tonnes Per Annum)

Air – 4.35%, 2.65%, 1.07% for FY ended 22, 23, and 24. Gas – 0.10% for FY 24 and its projected capacity is 150 TPA

Innotung – The company under this segment manufactures The Tungsten Heavy Alloy series through Powder Metallurgy. The company supplies these in the form of bars, plates, cubes, spheres, and components.

The company also produces THA for application in Electrical Contacts, Heat Management Systems.

Applications



Defense, Aerospace, Radiating Shielding, Sporting and Engineering.



Usages –

- Kinetic Energy Penetrators as an alternative to depleted Uranium
- THA is used in cannon shells, grenades, and missiles to create supersonic shrapnel.
- Dense Inert Metal Explosives are used as a dense powder to reduce collateral damage and increase lethality.

The company caters to clients such as BDL, BARC, HAL, RCI, DRDL, and etc. The raw material used are the metal powders purchased from national and international source.

The capacity utilization for this is 28.93%, 49.96%, and 48.84% for the FY ended 22, 23, and 24 respectively.

Net Proceeds Utilization

The company is raising gross proceeds amounting to Rs. 3,423.60 lakhs out of which the utilization is as follows

Particulars	Amount proposed	% of Gross Proceeds
Working Capital Requirement	Rs. 1,159.70 Lakhs	33.87%
Capital Expenditure Requirements towards Purchase of Machinery and Equipment	Rs. 788.20 Lakhs	23.03%
Repayment or prepayment of outstanding borrowings	Rs. 209.19 Lakhs	6.11%
General Corporate Purposes	Rs. 850 Lakhs	24.83%
Issue Expenses	Rs. 416.51 Lakhs	12.17%

The reasoning provided for the increase in capacity utilization is to allocate funds to maintain sufficient raw material stocks, enhance sales capabilities, for expanding Marketing Efforts domestically and internationally. To invest in quality control infrastructure and streamline the process with an ERP system and to invest in lean manufacturing systems for optimized operations.

Competition -

Market Competition: High, competition is strong from both organized and unorganized players. Competition could increase, particularly in Metal Powders.

Geographic Competition: Moderate, company faces competition from domestic and international players, but the R&D capabilities and backward integration offer a competitive advantage, especially in niche markets.

Barriers to entry: Moderate, technical expertise and R&D act as entry barriers, but smaller players, especially in Metal Powders, could still enter the market, increasing competition.

Bargaining Power of Buyers: High, buyers are price-sensitive and focused on quality, with multiple supplier options.

Bargaining Power of Suppliers: Low to Moderate, diversified sourcing reduces supplier power, but fluctuations in raw material prices can occasionally increase their influence on costs.

Threat of Substitutes: Low, substitution risks are low due to the specialized nature of the products, though long-term innovations in materials may pose a moderate threat.

Business Strategies -

Technology: The company will continue to invest in development of new technologies in the area of Powder Metallurgy.

Hydrogen Economy: The company's future is Hydrogen economy as there is no pollution. However, there are challenges with materials and components supply. The company is actively working in this area to be ready to take the opportunity which is coming in a big way

EV Battery Materials: The company is poised to take the opportunity to build a facility to produce Battery Materials.

AM Powders: The company working with IIT Hyderabad and DRDO for setting up a Gas Atomizer of 100 Kgs capacity. This will be the first commercial Gas Atomizer manufactured in the country for AM Powders.

Aerospace Standards: The company is working on implementing the AS 9100 standard for the Tungsten Heavy Alloy Division.

Green Power: The company will set up a 250 KW roof top solar plant to augment the green efforts.

Risk Factors –

The company has had negative operating cash flow for FY 2022.

The company and its promoters are parties to certain legal tax proceedings amounting to Rs. 107.05 lakhs. Any adverse decision in such proceedings may have a material adverse effect on the business.

The company's top 10 suppliers contributed to 58.58% for FY ended 2024 introduces a potential risk for significant purchases.

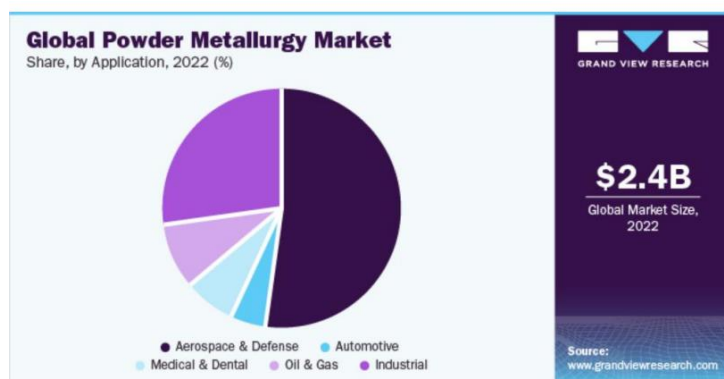
PEER ANALYSIS

The company believes that they do not have any listed peers for comparison. Thus, peer analysis cannot be conducted.

Global Powder Metallurgy Market -

Overview -

The global powder metallurgy market size was valued at USD 2.41 billion in 2022 and is expected to grow at a compound annual growth rate (CAGR) of 12.9% from 2023 to 2030. The increasing adoption of additive manufacturing to reduce the weight of parts or components used in the aerospace, defense, and healthcare sectors will drive the market over the forecast period. 3D printing, also called additive manufacturing, offers properties, such as reduced weight, cost effectiveness, and complexity in designs, which have attracted various manufacturers to implement the technology in their manufacturing processes. 3D printing is used in various industries, such as jewelry, medical, food, footwear, and aerospace. This has positively influenced the market growth.



(source: RHP)

Material Insights -

The steel segment held the largest revenue share of over 46.0% in 2022. Steel is considered one of the cheapest materials in additive manufacturing, which can also be utilized in a mixture with other metals, such as bronze, titanium, and 110luminium. The low cost and easy availability of steel are expected to increase its utilization in the printing of large products, including machines, car frames, and transport equipment over the coming years. Other applications of steel include spare parts and fully functional components.

The newly emerging applications of steel powder from aerospace, construction, mechanical engineering, and various other industries are further expected to augment its demand.

Powder Metallurgy Market Analysis -

The Powder Metallurgy Market size is estimated at USD 20.76 billion in 2024, and is expected to reach USD 26.10 billion by 2029, growing at a CAGR of 4.68% during the forecast period (2024- 2029). In 2020, COVID-19 negatively impacted the market.

However, the market has now been estimated to have reached pre-pandemic levels and is expected to grow steadily in the future.

- Powder metallurgy is being used more and more by automotive OEMs, which is one of the main things driving the market.
- On the other hand, rising costs of raw materials and tools are likely to slow the market’s growth.
- In the coming years, market opportunities are also expected to come from the growing use of P/M techniques in the medical field.
- The Asia-Pacific region led the market for powder metallurgy, and it is expected to have the highest growth rate over the next few years.
- Asia-Pacific has become one of the most important powder metallurgy markets and a top destination for manufacturers because its economy is growing, and people have more money to spend.
- The positive economic growth trends in countries such as China, India, and Japan have boosted the demand for powder metallurgy products and applications in recent years.

Powder Metallurgy Industry Segmentation -

Powder metallurgy is a way to make things that use less energy and have better performance and more design options than traditional methods like casting, forging, extrusion, stamping, and machining.

The powder metallurgy market is segmented by product type, application, and geography. By product type, the market is segmented into ferrous and non-ferrous metals. By application, the market is segmented into automotive, industrial machinery, electrical and electronics, aerospace, and other applications

Key Management -

Key Management Persons Name -	Lakshmi Kanthamma Chilakapati
Age	75
Designation and No. of years of experience	Promoter and Director.
Qualification	Below metric and is assisted by a professional team.
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Saritha Devi Chilakapati
Age	49
Designation and No. of years of experience	Promoter, Whole-time Director & Chief Financial Officer (CFO), Diamond Tool manufacturing industry and worked for more than 8 years and 20 years in various departments like Purchase, Inventory management, Product costing, HR, ISO implementation, marketing and business development, strategy, etc.
Qualification	M.BA (Fin)
Roles and Responsibility	Day-to-day financial activities of the Company.
Other Directorships	-
Key Management Persons Name -	Vinay Choudary Chilakapati
Age	54
Designation and No. of years of experience	Promoter, Managing Director and Chief Executive Officer, 15 years of experience in the Powder Metal industry.
Qualification	Mechanical Engineer
Roles and Responsibility	Oversees the day-to-day activities of the Company and preparing strategies of the company.
Other Directorships	-
Key Management Persons Name -	Dr. K. Bhanu Sankara Rao, FNAE, FASc, FASM, FIIM, FTAS, PROFESSOR OF PRACTICE Department of Materials Science and Metallurgical Engg, IIT, Hyderabad
Age	77
Designation and No. of years of experience	Non-Executive and Independent Director, 49+ years of experience in various organizations as an professor, dean and guest scientist etc.
Qualification	B.E., Metallurgical Engineering, Ph.D., Metallurgical Engineering.
Roles and Responsibility	-
Other Directorships	Editor-in-Chief of IIM Metal News.
Key Management Persons Name -	Venkata Bhaskara Rao Chadalavada
Age	81
Designation and No. of years of experience	Non-Executive Independent Director, 30 years of experience.
Qualification	Education in electrical engineering.
Roles and Responsibility	overhauling of manufacturing, operations at Innomet, and will drive operational efficiency and help in setting up the new facility
Other Ventures	-
Key Management Persons Name -	Myneni Narayana Rao
Age	68
Designation and No. of years of experience	Non-Executive Independent Director, 26 years of experience in Information Technology industry
Qualification	Mechanical Engineering
Roles and Responsibility	-
Other Ventures	Welspun Specialty Solutions Limited, Avantel Limited

FINANCIAL SNAPSHOT

Statement of Profit and Loss			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
Revenue from Operations	2,238.42	2,712.93	2,899.19
Other Income	1.94	1.85	56.26
Total Income	2,240.36	2,714.78	2,955.45
Expenses			
Cost of Materials Consumed	1,632.90	1,485.57	1,582.23
Changes in Inventories	-66.58	-165.61	-128.99
Employee Benefit Expenses	148.18	121.45	176.88
Operation and other expenses	354.29	698.89	830.47
Finance Cost	84.13	94.60	129.77
Depreciation and Amortisation	32.27	43.88	38.75
Total Expenses	2,185.19	2,278.78	2,629.11
EBITDA	169.63	572.63	438.60
EBITDA Margin	7.58%	21.11%	15.13%
Profit/(Loss) before tax	55.17	436.00	326.34
Tax Expense			
Current tax		114.45	74.43
Total Tax	-	114.45	74.43
Profit/(Loss) for the year	55.17	321.55	251.91
Net Profit Margin	2.46%	11.85%	8.69%

Statement of Assets and Liabilities			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	288.32	288.32	951.65
Reserves and surplus	91.46	417.62	520.35
Total Equity	379.78	705.94	1,472.00
2. Non-current liabilities			
Long-term borrowings	590.69	839.64	693.32
Total Non-current liabilities	590.69	839.64	693.32
3. Current liabilities			
Short -term borrowings	390.82	369.86	637.98
Trade Payables	206.45	164.09	280.01
Other Current Liabilities	21.21	41.09	225.92
Short-term provisions	-	136.57	107.53
Total Current liabilities	618.48	711.61	1,251.44
Total Liabilities	1,209.17	1,551.25	1,944.76
Total Equity and Liabilities	1,588.95	2,257.19	3,416.76
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	311.78	343.62	1,347.49
Intangible Assets	-	-	231.77
Capital Work-In-Progress	218.83	613.61	41.43
Long term loans and advances	23.13	25.08	22.38
Other Non- current Assets	61.20	61.20	218.93
Total Non-Current assets	614.94	1,043.51	1,862.00
2. Current assets			
Inventories	777.00	911.64	1,056.95
Trade Receivables	156.87	154.32	351.89
Cash & Cash equivalents	1.86	0.54	1.59
Short term loans and advances	28.33	129.73	85.31
Other Current Assets	9.95	17.45	59.02
Total Current assets	974.01	1,213.68	1,554.76
Total Assets	1,588.95	2,257.19	3,416.76

Cash Flow Statement

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	-17.79	352.99	217.78
Net Cash Flow from Investing Activities	-271.54	-472.44	-624.79
Net Cash Flow from Financing Activities	288.13	118.15	398.81

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	1.91	11.15	2.65	EV/EBITDA	8.01	3.34	6.39
BV per share	3.99	7.42	15.47	Market Cap / Sales	5.78	4.77	4.46
Operating Ratios				P/E	52.36	8.97	37.74
EBITDA Margins	7.58%	21.11%	15.13%	Price to Book Value	25.06	13.48	6.47
PAT Margins	2.46%	11.85%	8.69%	Solvency Ratios			
Inventory days	126.70	122.65	133.07	Debt / Equity	2.58	1.71	0.90
Debtor days	25.58	20.76	44.30	Current Ratio	1.57	1.71	1.24
Creditor days	46.15	40.32	64.59	Quick Ratio	0.32	0.42	0.40
Return Ratios				Asset Turnover	1.41	1.20	0.85
RoCE	14.15%	34.21%	18.47%	Interest Coverage Ratio	1.63	5.59	3.08
RoE	14.53%	45.55%	17.11%				

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Expert Global Consultants Private Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Expert Global Consultants Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Trom Industries Limited	31.37	115.00	August 01, 2024	238
2.	Mason Infratech Limited	30.46	64.00	July 01, 2024	158
3.	Durlax Top Surface Limited	40.80	68.00	June 26, 2024	66.8
4.	K2 Infragen Limited	40.54	119.00	April 08, 2024	260
5.	Jay Kailash Namkeen Limited	11.93	73.00	April 08, 2024	60.8
6.	Royal Sense Limited	9.86	68.00	March 19, 2024	146
7.	Mangalam Alloys Limited	54.91	80.00	October 04, 2023	44.6
8.	Zeal Global Services Limited	36.46	103.00	August 09, 2023	203
9.	Sonalis Consumer Products Limited	2.83	30.00	June 19, 2023	80.5
10.	Dollex Agrotech Limited	24.39	35.00	December 28, 2022	35

The company has handled 11 mandates in the past three years (including the current year)

*CMP for the above-mentioned companies is taken as of 12th Sep 2024.

As per the offer document, from the above-mentioned mandates 2 have opened at a discount and the remaining mandates have opened at premiums on the listing day.

Recommendation -

Innomet Advanced Materials Limited has been in the industry since 1984 and has vast experience in the industry. The management overview of the company is satisfactory.

The P/E on a post-IPO basis is around 51.37 times which makes it aggressively priced by looking at the performance of the company.

The company operates in a good industry. The company's strategies are good, and it operates in a niche market. However, the company has seen a very fluctuating top line and bottom line which raises concerns about sustainability. The company is also getting listed with a high valuation making this a risky investment. We believe one can wait and not apply to this IPO right now and can look for investment opportunities if the company justifies its valuation in the future.

Thus, we have a **Risk Averse - Should Wait Risk Seekers - Should Apply** recommendation for this IPO and risk-takers can look at this investment.

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